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Letter Ruling 79-1: Liquidation of Trust: Redemption of Units, Offset of Capital Gains and Losses

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January 3, 1979

This is in reply to your request for a ruling as to the interpretation of General Laws, Chapter 62, Section 17(e), on behalf of your client, *****, successor by merger to *****, as trustee of the ***** Common Trust Fund A ("CTF").

CTF, established in 1945, was terminated by the trustee on July 31, 1978. All of its assets were liquidated and, subject to suitable reserves for contingent liabilities, the proceeds were allocated among the participating accounts. All outstanding units of participation have been redeemed.

At liquidation, CTF has 367 participating accounts, of which 194 were irrevocable Massachusetts trusts and the remaining 173 were either revocable trusts or non-Massachusetts trusts. The liquidation of CTF's securities portfolio during 1978 generated substantial net capital gains to CTF. These gains have been allocated among the participating accounts, each of which will report its proportionate share of the gains on its 1978 fiduciary income tax return.

Most of the participating accounts have an adjusted basis which exceeds the redemption price. Each such account has therefore realized a capital loss on the redemption of its CTF units.

Based upon the foregoing facts, it is ruled that, capital losses realized on redemption of participating units of CTF and the passed-through capital gains of CTF are not derived from "other sources" within the meaning of General Laws, Chapter 62, Section 17(e). Therefore, the participating accounts may offset the passed-through capital gains with the capital losses upon redemption.

Very truly yours,

/s/Robert J. Kane

Robert J. Kane
Commissioner of Revenue

LR 79-1

